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Financial Markets

Irving Trust

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Friday Feb. 8, 1980

For most of the week, it was pretty much the same old story in the bond markets, as prices plummeted and yields soared. The markets weakened as traders tried to unload positions but merely ended up shifting bonds among themselves instead. After prices had fallen several points, some retail buying interest appeared on Thursday, encouraged perhaps by the bullishly moderate December increase in consumer credit. With high-grade utility bond yields approaching 13%, and U.S. Treasury bond yields nearing 12%, some investors cautiously began to direct funds into longer-term investments and contributed to a slight pickup in prices from their latest record lows.

Prices rebounded more on Friday, in part because of the markets' positive response to the new slate of money stock measures announced by the Federal Reserve late Thursday evening. Some of the measures represented conceptual changes designed to reflect the significant financial innovations that have occurred in recent years. For example, money market funds, which have grown by over $40 billion during the past year, are clearly an important new type of transaction account, and thus were incorporated in a few of the new money definitions. Other definitions, however, look very familiar.

M1A is nothing more than the old M1, adjusted to exclude balances of foreign banks and official institutions;

M1B includes M1A plus NOW accounts and automatic transfer accounts at banks and thrifts, credit union share drafts, and mutual savings bank checking accounts. This concept is very similar to the almost forgotten M1+ measure (introduced in November 1978) adjusted to exclude traditional time and savings deposits without any type of checking facility;

M2 represents a new broader concept of money measurement. It includes M1B plus traditional time and savings deposits other than large CDs at all depository institutions, money market fund assets, overnight Eurodollars, and overnight corporate repurchase agreements;

M3 adds to M2 large time deposits and term repurchase agreements at commercial banks and savings and loan associations;

L is a broad measure of liquidity that adds to M3 a number of other short-term assets.

Despite the changes, the Federal Reserve indicated that M1A, which does not differ significantly from the old M1, will be the money measure used to establish short-run targets for bank reserves. Moreover, according to the Fed, M1A and all the other new measures are in line with growth targets set at this week's meeting of the Federal Open Market Committee. Judging from these observations, it is clear that the new money measures leave intact the Fed's frequently publicized satisfaction with its efforts to control monetary expansion since October 6. Though the Fed sees nothing in the money figures at present to warrant further monetary restraint, ample reserve availability and the resurgent expansion of business credit in recent weeks raise serious questions about how tight policy has been, is, and may have to become.

Glenn C. Picou

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Money Market Rates

	2/8/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.25%	15.25%	11.75%
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.00	13.38	10.05
Repurchase Agreements	11.75	12.38	9.60
U.S. Treasury Issues - Yields			
Bills			
3 months	12.30	12.60	9.55
6 months	12.84	12.82	9.95
1 year	12.63	12.42	10.18
Coupons			
2 years	12.00	11.81	9.64
4 years	11.40	11.20	9.10
7 years	11.60	11.20	9.09
10 years	11.55	11.14	9.09
Long Bond	11.60	11.12	8.99
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.25	13.15	9.85
3 months	13.40	13.40	10.10
6 months	13.70	13.55	10.50
1 year	13.40	13.20	10.75
Bankers' Acceptances			
1 month	13.15	13.20	9.75
3 months	13.43	13.50	9.90
6 months	13.73	13.60	10.05
Eurodollar Deposits			
1 month	13.81	13.94	10.50
2 months	14.19	14.19	10.75
3 months	14.38	14.25	10.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.00	12.00	9.00
1 month	13.00	12.25	9.75
3 months	12.25	13.00	9.63
Bank Holding Companies			
1 month	13.13	13.05	9.75
Dealer Placed:			
3 months	13.05	13.25	10.05
New Aa Corporate Utility Bond	13.10	12.50	9.55
Tax Exempt			
6 month Project Notes	5.50	5.70	5.10
12 month Project Notes	N/A	N/A	5.35
20 year AAA Bond	7.00	7.00	5.75

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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